Americans for Community Development

. . . . the organization for the L³C

The following was written by Martha Paschal of the Volunteers of America for distribution in Virginia. We are proud to have the support of the Volunteers of America one of the largest and most stable faith based nonprofits in the United States. Their work in the low income and senior housing markets is unmatched anywhere:

*We've been working with Robert Lang of the Mannweiler Foundation for the past two years to broaden support for this initiative, which has the potential to increase foundation funding through program-related investments. At present, the IRS does not track foundation PRIs, how they're invested, what activities are generated, and how they further foundation missions. The L3C framework would prod the federal government into action through the IRS on this front, which I consider to be a wise initiative.*

*While L3C s are structured as for-profit entities, this is not a new field of endeavor for non-profits, as those of us in the housing arena having been using tax-advantaged entity structured since the low-income housing tax credit came into being in 1986, and are comfortable with the rules of engagement for structuring for-profits with non-profit controlling members. Attached are a set of bullet points on the L3C*

***Proposed Amendments to The Virginia Limited Liability Company Act to Implement the Low-Profit Limited Liability Company ("L3C")***

***Background information:***

*• The L3C is a type of limited liability company recognized in seven jurisdictions (VT, MI, WY, UT, IL and the Oglala Sioux and Crow Tribes), which is organized and operated at all times to satisfy the IRS's criteria for qualifying as a program-related investment (PRI). The primary purpose of an L3C must be a charitable purpose, with profit as a secondary goal.*

*• In truth what the L3C law does is simplify a process, brand it, and make it more transparent and less expensive to construct. It creates a framework and a template. The L3C structure articulates a commitment to charitable purpose in its governing documents, and provides a means for the public to identify taxable organizations that perform charitable services.*

*• There is currently federal legislation being worked on which would make the review process by the IRS more streamlined, and creates a voluntary registration with a mandatory reporting requirement for for-profit entities which receive PRI funding. This will improve the process of review and reporting to the public and the IRS on charitable activities undertaken by these organizations. This will provide the first ever registration process for PRI's. Currently the IRS has no way of knowing all the PRI's that exist or their eventual resolution.*

*• The L3C entity structure would encourage foundations to do more program-related investments rather than straight grants in order to leverage these funds into larger investments that further foundation missions. The Council of Foundations, who has made it a legislative priority, has taken this concept wholly to heart.*

***Program-Related Investments – A Primer***

*• Program-related investments (PRI) were allowed under Internal Revenue Code in 1969, and the idea was to have foundations invest in for profit projects that would primarily further the foundations' mission, and secondarily provide a nominal return to the foundation while providing space for commercial investors to earn a market rate of return.*

*• PRI's are not done by the majority (95%) of foundations, because of complexity under current regulations and significant punitive measures for non-compliance – a 10% excise penalty on the foundation's assets and joint and several liability of foundation staff and directors amongst others.*

*• Heretofore, only large foundations have had the financial wherewithal to do PRIs comfortably, given the prevailing view that PLRs are needed to offset the ramifications noted above for foundation non-compliance on these investments. The L3C would be an encouragement to smaller family and community foundations to enter this arena.*

*• Given the funding shortfalls from states and localities due to the tax revenue shortfalls they're facing and the heavy impact these will have on non-profit operations, this offers a vehicle to not only replace state and local funding, but as a means of encouraging local matching of PRI funds.*

*• The non-profit community and advocates around the state are in support of this issue, as they see this as a means of increasing investment in their missions by foundations with similar programmatic goals.*

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**Volunteers of America Bullet Points**